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South african economy

This paper examines South Africa's current economic policies, using a revised dependency theory to specifically focus on the persistently unequal relationship between the First and Third Worlds. Lessons from the economic path of Asian countries, and the Asian Economic Crisis have implications for the prescribed path of economic development in the less-developed countries. This paper, and the economic choices facing South Africa can be understood as influenced by the path of economic development in Asia. As neo-liberal policies are instituted globally as the current paradigm, it is crucial to examine the path of economic development in emerging markets and less-developed countries not in isolation, but in relationship to development agendas and prescriptions throughout the world.

South Africa's GEAR: Using a 'revised dependency theory' to asses South Africa's situation
Blue Macellari
As South Africa attempts to negotiate the post-apartheid era, the new government must squarely face the legacy of socio-economic inequality and the crippled economy that it has inherited. Two crucial objectives which the new democracy is committed to-- lessening the gap between the rich and the poor and achieving sustainable economic growth-- will rely on the particular path to development that the government selects, and the specific policies implemented. In June of 1996 the ANC led government unveiled its macroeconomic strategy to reach this end: Growth, Employment and Redistribution, or GEAR (Marais, 1998:61). This paper will critically examine GEAR, and establish how framing this analysis within a theoretical discourse illuminates several critical danger areas for South Africa in its attempt to achieve social and economic progress with GEAR as its macroeconomic strategy.
This paper will start by exploring the current orthodoxy in developmental economics, and discussing how we have arrived at the present paradigm. I will then present the ideology and specific policies of South Africa's approach, dissecting GEAR, and establish that GEAR is consistent with the current orthodoxy. After that I will establish the need for a critique of current orthodoxy based on a 'revised' dependency theory, and will present the parameters of this critique. Finally, I will use this 'revised' dependency theory as a lens through which to view GEAR, and establish three critical danger zones for South Africa in its pursuit of economic and social progress.
I begin by briefly outlining the process by which we have arrived at the current

economic orthodoxy and by establishing and discussing the basic tenets of this paradigm. The origins of today's economic policies find their root in the modernization theory, which was the dominant paradigm of development during the 1960s. Generally, the modernization theory relied on the premise that 'tradition', in all its many forms- cultural, economic, political, etc.,- was the primary reason why the third world had not developed on par with the western industrialized countries (Smith, 1996:64). Within this broad ideology, it was understood that the ultimate goal of development in the third world would be the attainment of a, "condition corresponding to the industrial capitalist societies of the West,"-- modernization (Smith, 1996:64). The gradual removal of traditional societies' economic and political systems, as well as their cultural institutions and values, and replacing them with modern ones was how modernization would be achieved (Smith, 1996:64). This ideology permeated development economics, and the belief of policy makers that this process of modernization could be speed up by employing specific policies of development dominated the policies of richer countries towards poorer ones throughout the 1960s (Smith, 1996:64).

While the actual approaches of development economics have differed greatly and changed dramatically since the 1960s, the fundamental ideology has held strong-- that the third world's 'backwardness' is responsible for its failure to achieve modernization on par with the West. Structuralism is the school of thought and policy which dominated development policy through the 1960s and the 1970s (Toye, 1994:22) Structuralism relied on the assumption that economies of third world countries are structurally different from those of the first world, and thus a different set of policies from the neo-Keynesianism being practiced in the industrialized world were required to bering about development in the third world (Toye, 1994:22) However, changes in the economies of the industrialized world during the 1970s precipitated a change in development economics as well (Toye, 1994):19-23. The 'dualism axiom' underlying structuralism was challenged, and finally replaced as the dominant paradigm by 'monoeconomics' in the late 1970s (Toye, 1994:22). Monoeconomics held that economic policy could be universal, and that the application of, "standard economics' for policy analysis in the developing world" was appropriate (Toye, 1994:22). This universal application of economic policy ushered in an era of applying the ideology behind the economically conservative, market-based policies of the new leadership in the United States, the United Kingdom and West Germany to the developing world-- and structural adjustment and the era of neo-liberalism was born (Toye, 1994):18-23. Dominant development policy of the 1980s and the 1990s has been based on the universal application of the economic conservatism of neoliberalism. Neoliberalism calls for, "diminishing the role of the state in society and unleashing the supposedly (self-)corrective powers of unfettered market processes." (Marais, 1998:115) The economic agenda of neoliberalism is, "characterized by the primacy of macroeconomic stabilization" (Toye, 1994:23). Structural Adjustment Programs, the form which development policy has taken since the 1980s, are also grounded in the notion that the power of free-market policy can lead the third world to development. The SAP's of the 1980s contained, "two distinct components- stabilization and structural adjustment in the narrower sense of market liberalization and public sector reform." (Toye, 1994:22). The current neoliberal ideology, sometimes referred to as the Washington Consensus, is, "promulgated in the US but also espoused by multilateral institutions such as the World Bank and IMF" (Surin, 1998:7) This Washington Consensus insists, "that all economic advancement, including progress beyond the most abject poverty and immiseration, has necessarily to be market-driven." (Surin, 1998:7) That neoliberalism and structural adjustment have become the prevailing paradigm in both the world economy and in the specific policies of development economics is not surprising, considering both the collapse of Soviet socialism and the influence of the institutions and governments which endorse this strain of thinking.

As a country which has recently made the transition to democracy and is now actively pursuing economic and social progress, South Africa is joining a global economic community in which development economics are dictated by neoliberalism. The macroeconomic policy which the South African government has adopted is called GEAR, Growth, Employment and Redistribution. The process by which the ANC government has arrived at this strategy for achieving development is beyond the scope of this paper, and was in fact the subject of my last essay for this class. However, some background is obviously necessary. To put GEAR in context, it was unveiled in June of 1996, coming on the heels of the first serious currency crises under the new government, where in February of 1996 the Rand crashed, falling by more than 25% (Adler & Webster, 1998). GEAR is the macroeconomic strategy by which the ANC led government proposes to meet its longer-term goal of lessening socio-economic inequality, an ideological goal which is expressed in government policy such as the Reconstruction and Development Plan (RDP) (CDE, 1997:6)

GEAR seeks to utilize neoliberal tools to stimulate economic growth, the creation of jobs, and ultimately facilitate social equality. The ideology behind GEAR is clearly based in neoliberalism--"GEAR is consistent with the present strong international consensus on the efficiency of the market system." (CDE, 1997:6) This belief in the efficacy of the market system within the predominant development paradigm is conveyed in GEAR's strategy for achieving economic growth in South Africa. GEAR

proposes commitments to fiscal discipline and macroeconomic balance with which, "over a five-year period it aims to get the economic fundamentals right in order to encourage private sector investment leading to job creation." (CDE, 1997:2)
A discussion of the detailed policies of GEAR and the projected results support the idea that GEAR is based in the neoliberalism which is the current development paradigm. GEAR has made projections as to the amount of growth that it can create over its five year life span. GEAR has estimated that its policies will lead to an increase in annual growth by an average of 4.2%, it will boost exports by an average 8.4% per annum, and ultimately create 1.35 new jobs by the year 2000 (Marais, 1998:161-2). According to Marais, the pillars of GEAR, and the overall methods by which the above projections are to be reached, fall in line with typical neoliberal methodology--"deficit reduction, keeping inflation in single digits, trade liberalization, privatization, tax cuts and holidays, [and] phasing out exchange controls." (Marais, 1998):171 In addition to the methods Marais highlights above, other, more specific methods of stimulating investment (and consequently growth) include, "slashing state spending to drive the budget deficit down to 3 per cent of the GDP by the year 2000...encouraging wage restraint by organized workers...[and] creating a more 'flexible' labour market, possibly by deregulating certain categories of unskilled work and exempting small businesses from aspects of the new labour regime..." (Marais, 1998:161-2) The actual policies by which GEAR proposes to stimulate growth illustrate that South Africa's path to development has embraced the predominant orthodoxy of neoliberalism.
The critical aspect of neoliberalism, and policies like GEAR which follow its prescription, is a heavy reliance on (primarily foreign) investment, and the implementation of liberalization in order to attract that investment. Marais contends that the current 'internationalizing' trend in the world economy, promoted by the IMF and the World Bank, which constitute the common aspects of neoliberal policy--'liberalizing' trade relations by reducing tariffs and the removal of non-tariff protective barriers for domestic industry, as well as the removal of financial controls and facilitating and even guaranteeing the free flow of capital-- are done to make a country more attractive to foreign investment (Marais, 1998):124. Another example of the extent to which neoliberal policy prescription is geared towards attracting investment is the goal of reducing the fiscal deficit. The reduction of fiscal deficit is based on the general idea that state borrowing to finance deficit causes the state to compete for funds with the private sector, which is said to in turn, "reduce investor confidence, drive up interest rates and slow growth." (Marais, 1998:163)
As with neoliberalism itself, GEAR looks to foreign investment as the source of economic growth, and its policies are aimed at attracting investment. GEAR's economic objective is to implement policy which will attract investment. (CDE, 1997:2) Building a climate of investor confidence is the "key variable", and the success of GEAR will rely on increased private sector investment. (CDE, 1997:3) Terrence Moll, Senior Economist from the Economic Research Unit of Old Mutual believes that the, "economic logic behind GEAR makes a lot of sense. It entails the government doing the things investors like." (CDE, 1997:10) However, he acknowledges how heavily GEAR relies on investment, going so far as to call this heavy reliance a "gamble", and recognizing that the success of GEAR (as well as the possible failure) rely almost exclusively on the response of business investment (CDE, 1997):10. In more specific terms, the calculations which GEAR uses in its projections show, "import expenses...depressing the fiscus by -0,2 per cent, while state spending was scheduled to add a fiscal stimulus of only 0,5 per cent," therefore, "achieving the projected 4,2 per cent average annual growth would require a ...fiscal stimulus of 3,9 per cent (or 93 per cent of the total stimulus) from private investment." (Marais, 1998:163) In the case of many neoliberal development policies, as with GEAR, the reliance on investment is in fact a heavy reliance on foreign investment, as is indicated by the methods prescribed by neoliberalism to attract investment. One specific example is the phasing out of foreign exchange controls, which is featured as part of GEAR's strategy. In South Africa, "foreign investors are to gain easier access to domestic credit, with wholly foreign-owned firms able to borrow up to 100 per cent of shareholder equity." (Marais, 1998:170) Trade liberalization, which is also a feature of GEAR, is another indication that for third world countries seeking to attract investment in a 'global economy', the real reliance is on the attraction of foreign investment. (Marais, 1998):124.
The continued disparity between the first and the third worlds- despite half a century of development policies, programs and efforts raises significant questions about orthodox development strategies. At the very least, a critical analysis of the orthodox approach to development is warranted. If the current orthodoxy of neoliberalism in development economics can trace its roots to the modernization theory of the 1960s, then perhaps an updated version of the dependency theory- which offered the largest criticism of modernization back in the 1960s- can be utilized to critically assess the current orthodoxy. The debate between the modernization and dependency theories which took place in the 1960s is too complex for me to relate in this paper.

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